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**University Examinations 2015/2016**

FOURTH YEAR, SECOND SEMESTER EXAMINATION FOR THE DEGREE OF BACHELOR OF COMMERCE

**BFC 3476: FORENSIC ACCOUNTING**

**DATE: AUGUST, 2016 TIME:** $2 $**HOURS**

**INSTRUCTIONS:** *Answer question* ***one*** *and any other* ***two*** *questions*

**QUESTION ONE (30 MARKS)**

1. A recent survey showed that there is a growing demand for accountants and auditor with forensic accounting knowledge and skills;
2. Explain the term forensic accounting. (3 Marks)
3. Discuss the likely reasons for the increased demand for auditors and accountants with forensic accounting skills. (5 Marks)
4. The following Trail Balance was extracted from the books of Jamba Enterprises as at 30th June 2016.

Shs.000 Shs.000

Sales 120,800

Opening Stocks 20,000

Purchases 48,000

Sales Returns 4,000

Purchases Returns - 7,500

Administration costs 30,000

Debtors 18,000

Creditors 26,500

Cash and bank 14,500

Marketing and distribution costs 20,000

Products warranty expenses 3,000

Ordinary share capital - 100,000

Investments held to maturity, 5 years 5,000

Short term investments 2,000

Property, plant and equipments 220,000

Finance costs 10,000

Discounts allowed 3,000

Depreciation of assets 2,000

Provision for depreciation of assets 10,000

Bad debts written off 1,000

Provision for bad debts 4,000

General Reserves 15,000

Profit and Loss Balance B/F 4,500

Other incomes 8,500

Discounts Received 2,000

Legal and contingencies costs 9,884

Directors fees and allowances 6,000

Auditors remuneration 2,000

Accruals 5,000

Long term Bank loan 100,000

Staff Gratuities 15,000

Sales commissions 416 \_\_\_\_

 418,000 418,000

Closing stocks 15,000,000

On 1.7.11, the Company hired three managers , Mlavi in charge, Administration and finance, Juhudi in charge of Human Resources and Procurements, and Mlanono in charge of sales and Marketing, with monthly salary of shs. 150,000 , shs. 120,000 and shs. 100,00 respectively.

Mr. Mlanono was entitled to a 2% sales commission for sales turnover in excess of 100 million per annum. Company policy was to hire managers on 5 year contract, with 30% service gratuity for every complete year of service. The gratuity was subject to a net tax charge of 10% at the time of payment of gratuity. Managers contracts were renewable for another final one term of 5 years subject to excellent performance.

In the year ended 30th June 2016 the following was discovered after the company engaged the services of forensic auditors in response to several complaints from a diverse pool of the company stakeholders.On 1.7.16 the three managers were given compulsory leave of absence to allow for forensic investigations. Forensic investigations discovered the following:-

1. In the purchases account, an item of shs. 1,400,000 was included as having been procurement and had been paid for. The firm which was paid shs. 1.4m was owned by the procurement manager. Forensic investigations showed that no such items had been delivered to the company and was a fraud.
2. In the Administration cost accounts the following was discovered.
* Rent of agency office had been overstated by shs. 360,000
* Item of casual labour had been overstated by shs. 720,000
* Travelling and transport item had been overstated by shs. 1,000,000

Forensic evaluation and investigation discovered the following frauds:-

* Mr. Mlavi was pocketing via Mpesa from the Landlord, every month during the year, shs. 30,000 as lease protection fees which was over and above the agreed rental fee for the agency office.
* Mr. Juhudi in collusion with Mr. Mlavi had inflated casual labour costs during the year by shs. 720,000 and shared the loot equally.
* Mr. Mlavi had also acquired a small personal car Toyota Alfa at a cost of shs. 1,000,000 and charged it against the company’s transport and travelling expenses account. At the time of forensic review, the car was in the possession of M/S Kavura, one of Mr. Mlavi’s concubines.
1. In the account sales, a sale item vatable at 16% amounting to shs. 23,200,000 was completely omitted from the books where both Mlavi and Mlanono had planned to bribe KRA officials with shs. 800,000 to avoid VAT, and thereafter share the loot equally. However, due to this behaviour on the part of its managers, the company incurred shs. 440,000 as tax penalties and thereafter paid the full amount of VAT on the sale item.
2. In the account of discounts allowed an amount of shs. 1,000,000 was allowed but forensic experts found out that Mr. Mlanono had been paid in cash in full, but pocketed the money and purportedly reported that discounts had been allowed to customers.

In addition bad debts item totaling to shs. 500,000 were purpoted to be bad, yet customers had paid cash to Mr. Mlanono , who pocketed it as own and thereafter in the ledger records, declared the customers accounts as bad debts and had them written off.

1. In the PPE accounts, tyres of a company motor vehicle with a new value of 30,000 were removed and exchanged with Mlavi’s Toyota Alfa whose value was only shs. 4,000 (ream value only) without the authority and approval of Directors. No adjustments had been made in the books of accounts.

**Required:**

1. Discuss the financial , administrative and accounting problems facing Jamba enterprises. (6 Marks)
2. On 1st August, 2016 Jamba Ltd, sacked and took the three managers to court, and the court ruled against the three managers and ordered the company to recover the assets lost through the actions of the managers, from their service gratuities with the company. In addition, the court gave them jail terms of two years each ,with 2 strokes weekly.
* Compute the total amount that was fraudulently stolen by each manager from the company. (2 Marks)
* Compute the total amount of gratuity payable to each manager. (2 Marks)
* Journal entries and ledger accounts to record the amounts stolen and recovered. (4 Marks)
* Draft the correct statements of comprehensive incomes and of financial position as at 30th June 2016 that would be used for financial reporting to the market. (8 Marks)

**QUESTION TWO (20 MARKS)**

Corruption has been cited as the Africa’s tragedy, as many economies in Africa seem to have lost the war on corruption.

**Required:**

1. Define and explain the meaning of corruption. (2 Marks)
2. Discuss the causes of corruption in Kenya. (5 Marks)
3. What can be attributed to African governments inability to fight and combat corruption in their states? Discuss. (5 Marks)
4. Elucidate the measures that African governments and citizens (both individual and corporate) can devise to control and combat corruption in organizations institutions and society at large. (5 Marks)
5. Discuss the effects of corruption on the financial position of an enterprise. (3 Marks)

**QUESTION THREE (20 MARKS)**

Chapter 12 of the Constitution , Sec. 226 (5) states that if holder of a public office directs or approves use of public funds contrary to law or regulations, the person is liable for loss an shall make good the loss whether the person remains the holder of the office or not.

**Required:**

1. With the content of the above, explain the term loss of public funds. (2 Marks)
2. Are there examples in Kenya where persons have been made to pay for the loss of public funds? Despite loses of youth funds, free primary schooling funds etc? (2 Marks)
3. Distinguish between theft by servants and embezzlement of funds. How different are they from the financial crimes of robbery. (3 Marks)
4. Discuss the reasons behind the inability of government to recover loss of public funds lost in its institutions, departments and agencies at national and county levels of government. (6 Marks)
5. From a forensic accounting point of view, elucidate the measures that the state department of education can take to control and combat loss of public funds on exchequer resources sent to primary schools, secondary schools and colleges/ universities to foster and improve education facilities and learners. (7 Marks)

**QUESTION FOUR (20 MARKS)**

The following terms are commonly used in forensic accounting or accounting for frauds.

(10 Marks)

1. Opportunity
2. Attitude
3. Pressure
4. Abuse of office
5. Evidence
6. Conspiracy
7. Investigations
8. Detection
9. Arson
10. Conviction

Critically explain each of the above term, with clear examples.

**QUESTION FIVE (20 MARKS)**

Vetting of officers in all levels of management whether in the public or private sector institutions and continuous review of the growth of officers personal wealth is fundamental to addressing the rampant frauds, corruption and fraudulent financial reporting across the entire economy.

***Required:***

1. Explain the term vetting. How is it different from personnel appraisal? (2 Marks)
2. Discuss the components of good employee vetting. (3 Marks)
3. Explain why it is important for organizations to carryout employee lifestyle audits.

(5 Marks)

1. Discuss the importance of an effective control environment in combating frauds among employees. (6 Marks)
2. Recently, in a leading public university two female employees committed financial crimes, where one employee stole sh 20 million while serving as a campus director. The other one stolen a chicken from the university’s poultry farm while serving as a poultry attendant. The other one who stole shs. 20 million was later acquitted for lack of adequate evidence while the one who stole chicken could not proof that the chicken was hers and so was sentenced for three years in jail with a weekly stroke. Can such judicial and legislative measures help control and combat frauds, thefts and corruption? Discuss.

(4 Marks)